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TAGS: EFIN ECON PREL KS KN
SUBJECT: DPRK ECONOMY: EXPERT SAYS THAT BDA FREEZE POSES
BANKING DIFFICULTIES

REF: A. ULAAN BAATAR 139
1B. ULAAN BAATAR 155

Classified By: EconMinCouns Kurt Tong for reasons 1.5 (b,d)

SUMMARY

11. (C) The General Manager of North Korea's Daedong Credit Bank, a British national, complained to the Embassy that actions taken by financial authorities in Mongolia and elsewhere in the aftermath of U.S. defensive measures against Banco Delta Asia are complicating the conduct of legitimate financial transactions on behalf of North Korean businesses. The bank executive offered to "open his books" for inspection by the United States. He also said that even though Golomt Bank eventually certified that there was no counterfeit currency among cash seized at the bank earlier this year by Mongolian officials, his DPRK partners will not permit him to conduct any more business with Golomt. Having spent some ten years doing business in the DPRK, the executive said that life in North Korea is much changed from a decade ago. End Summary.

LEFT IN THE COLD IN MONGOLIA

12. (C) EconOff met with Daedong Credit Bank (DCB) General Manager Nigel Cowie and discussed the recent seizure of his bank's cash in Mongolia (ref A). We also discussed the effect of the Banco Delta Asia (BDA) asset freeze on his bank, and the changing situation in the DPRK.

13. (C) Cowie's version of the February 21 seizure of USD 1 million and JPY 20 million tracked with reftels. According to Cowie, although the couriers were carrying DPRK diplomatic passports, they were DCB employees, seconded from the DPRK Daesong Bank, as are all five of his North Korean employees. The custom of couriers carrying cash while using diplomatic travel documents is one common to North Korean banking concerns, according to Cowie. Where things went wrong in Ulaan Baatar is that the couriers -- one of them on his first trip outside the DPRK -- allowed themselves to be separated from the cash. Following that misstep, Cowie told us, the two couriers remained overnight on the front steps of the

building where the cash was initially inspected (in the middle of a Mongolian winter) in order to remain close to the cash.

¶4. (C) The Mongolian government eventually cleared the cash in question (ref B), and the money was indeed deposited into the Golomt Bank. DCB and Golomt maintain their correspondent relationship, but as a result of the incident Cowie's DPRK partner will not allow DCB to conduct transactions with the Mongolian bank again. Cowie suspects that this decision to shun Golomt is partly due to the embarrassment caused by the seizure of the cash, and partly due to DPRK fears that Mongolian officials might seize a subsequent shipment of cash.

DAEDONG CREDIT BANK FEELS PINCH FROM BDA SQUEEZE

¶5. (C) According to Cowie, USD 6 million of the USD 24 million frozen in Banco Delta Asia's accounts belongs to DCB customers. The largest DCB customer affected by the freeze is the North Korean branch of British American Tobacco. He speculated that most of the remaining frozen funds also belong to a handful of BDA's correspondent banks -- all legitimate in his opinion. Cowie asserted that a deposit of more than one million (in cash), made by DCB just before Treasury's September 15 announcement, had not yet been credited to DCB's accounts. His sources reportedly told Cowie that the deposit was still segregated from the general cash holdings of BDA. Cowie told us that he would check whether DCB made a list of serial numbers for the currency shipped to BDA.

¶6. (C) The BDA freeze has severely constrained his bank's operating capital, according to Cowie. DCB notified its

Pyongyang-based customers affected by the BDA freeze immediately and they have "all been very understanding."

"CHECK MY BOOKS, PLEASE..."

¶7. (C) Cowie and a group of investors jointly own DCB with North Korea's Daesong Bank, in a 70-30 split favoring Cowie's group. The DPRK authorities permit DCB to maintain accounts only for foreign customers; no state-owned companies or government offices may bank with DCB. Most of the hard currency deposits made at DCB come from cash sales of commodities by foreign firms or individuals based in North Korea. Cowie expressed consternation at the bind his bank is in due to the BDA action. He expressed confidence that DCB is doing nothing wrong, and offered to "open his books" for inspection by the United States. Post has electronic versions of a speech and a presentation Cowie has delivered. Please advise if we should forward these e-documents.

¶8. (C) The banker confirmed that despite the DPRK's official use of Euros, there is always a shortage of Euros in North Korea; the more pervasive currency is the U.S. dollar. Contrary to reports of the superior nature of "Supernotes" and the common view that the counterfeits are difficult to detect, Cowie claimed that his tellers could spot bogus notes with little difficulty. When a counterfeited note is discovered, DCB simply rejects the note and does not notify any DPRK authority, he told us. Cowie also complained that he was having difficulty in obtaining updated sensing devices for the bank's cash-counting machines. Because of the bank's Pyongyang address, Cowie implied that he was obtaining updated counterfeit-detecting technology though a circuitous route.

"LIFE IS GOOD..."

¶9. (SBU) Formerly an employee of Honk Kong and Shanghai Banking Corporation, Cowie has lived and worked in South and North Korea for more than fifteen years. Having spent more than ten years doing business in the DPRK, the executive said that life in North Korea is much changed from a decade ago.

Even so, Cowie said he can only handle the stresses of living and working in the DPRK -- even though he lives in the diplomatic compound and DCB is located in a major Pyongyang hotel -- for a few months at a time. Following each stint in the DPRK, he returns to his family in Seoul for an extended rest, up to six weeks at a time.

¶10. (SBU) Although he told us that life in the DPRK was more relaxed than when he first started working there, he still stole furtive glances over his shoulder and hesitated to say Kim Jong-il's name directly -- all this despite our meeting in a crowded restaurant in downtown Seoul.

THE BROADER CONTEXT OF BDA

¶11. (C) Cowie said that he is speaking to journalists and government officials at every opportunity out of his belief that clearing up BDA's name will also improve the situation for his own bank. In his opinion, the money tied up by the BDA freeze has no direct impact on any of North Korea's senior officials. In fact, he claimed (without offering any specifics) that their money is in European banks. The reason North Korean officials are using the unfreezing of BDA assets as a precondition to returning to the Six Party Talks, according to Cowie, is that they believe once the review of BDA accounts has been completed by the U.S. government, banks around the world will once again open their services to North Korean banks and individuals.

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